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March 8, 2010

The Honorable Debbie Matz
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

The Honorable Michael E. Fryzel
Board Member, National Credit Union Administration

VIA E-mail to: regcomments@ncua.gov

RE: Texas Credit Union League Comments on Part 704 Corporate Credit Unions

To Chairman Matz, Board Member Hyland, and Board Member Fryzel:

I would like to take this opportunity to express my appreciation to the NCUA Board for allowing comments on the proposed Corporate Credit Union Regulation 704. I agree with NCUA's emphasis on "safety and soundness", but we feel that the proposed regulation is so restrictive that it will severely limit the corporate credit union system's ability to perform the functions for which they were created. The new regulation may shift more risk to the corporates making them uncompetitive and forcing natural person credit unions to seek services of non-credit union providers. We fear this proposal will negatively impact efficiencies and earnings of natural person credit unions for years to come.

Resource One Credit Union relies on Southwest Corporate FCU for our check processing, payment clearings, investments and liquidity needs. Their low cost services allow our credit union to offer competitively priced products and services to our members. Southwest Corporate has been a valuable partner and irreplaceable advocate for more than twenty years.

Comments and Recommendations:

Time Period for Capital Ratio Attainment

The timeframe associated with the proposed 4% Leverage Ratio rule appears too aggressive. The new regulatory ALM and investment restrictions will certainly hinder corporate credit union's ability to earn sufficient levels of ROA needed to achieve the new capital thresholds. To reach the mandated capital goals, corporate credit unions will be forced to lower deposit rates, increase loan rates and increase their fees on their offerings. It is unreasonable to expect corporates to attain the transitional capital thresholds while their competitive advantage erodes due to the necessity of maximizing earnings. In addition, they will face other challenges such as; the weak U.S. economy, record high unemployment, declining market values and no "legacy asset" solution. Twelve months is insufficient time for corporates to achieve the new capital requirements.

Recommendation: Lengthen the transition period for corporate credit unions to increase their capital through earnings and recapitalization to a minimum of two or three years.

Lack of Legacy Assets Provision

Resource One Credit Union feels that the legacy assets issue is the most important issue facing the future viability of the corporate credit union system. Unfortunately, NCUA has failed to address this issue in its proposed Part 704 Corporate Credit Union regulations. Corporate credit unions face a daunting task of soliciting recapitalization as long as future investments remain subject to continued investment losses arising from their existing investment portfolios.

NCUA needs to take immediate action to develop a palatable solution to the legacy asset issue. The longer the legacy asset issue remains a threat to the recapitalization process, the greater the magnitude of damage it inflicts on the corporate credit union system. Already, we know of several natural person credit unions that have notified their corporate that they will be moving to non-credit union competitors for their checking processing and correspondent banking needs.

Recommendation: Address the business and regulatory issues associated with these assets. The "removal of" and/or "protection from", these toxic assets is essential to the corporate's ability to solicit future recapitalization. NCUA should take immediate action on this issue before additional damage is inflicted on the corporate credit union system.

ALM limitations

The tightening of the concentration of certain investment types and the cash-flow mismatch limit of two months will severely limit the corporate's ability to generate sufficient earnings needed to reach NCUA's proposed capital requirements. In order to reach the twelve month capital threshold, corporates will be forced to increase risk.

Recommendation: NCUA should revise Rule 704. The revised rule should be designed to reduce or limit excessive balance sheet risks, not to entirely eliminate them.

This quote expresses our feelings so well:

Corporates provide services that are unavailable anywhere else in our cooperative industry. Without them, NPCUs would be forced to look for these services in the for-profit arena. The size of most NPCUs limits their ability to negotiate competitive pricing and contract conditions. This would undoubtedly lead to decreased net income due to increased processing fees, increased cost of borrowing and decreased investment yields. This decrease in net income will impact all credit union members; however, it falls heaviest on the members of smaller credit unions."

Anonymous

Once again, Resource One Credit Union appreciates the opportunity to comment on these issues. As concerned members of the corporate credit union system, we look forward to working with NCUA by doing our part to ensure that the credit union movement remains strong and unified.

Sincerely,

Jim Brisendine

Jim Brisendine
President/CEO